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OFFICE OF FINANCIAL AND INSURANCE SERVICES
DEPARTMENT OF CONSUMER & INDUSTRY SERVICES
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LETTER NO.: 2003-CU-02

TO: The Board of Directors and Management of Michigan state-chartered credit unions.

SUBJECT: 2002 Fourth Quarter Financial Results

The Office of Financial and Insurance Services (OFIS) compiles call report information to monitor Michigan state-chartered credit unions, both individually, and in the aggregate. The purpose of this letter is to share some overall industry trends and highlight certain areas of particular concern based on the December 31, 2002 call report filings.

Summary

Overall, Michigan's 277 state-chartered credit unions remained financially sound. Credit union membership remained relatively stable for the quarter and is nearly 2.66 million. Total assets increased 1.8% for the quarter (annualized) and now exceed \$16.44 billion. Loans declined slightly for the quarter, and total just over \$9.88 billion.

Asset growth has leveled off compared to prior quarters. However, loan delinquency and charge-offs continue to rise, while net worth and earnings ratios are low but stable. Areas of regulatory concern identified in our analysis of the December 31, 2002 call report information include the following.

Earnings Deterioration

There are 31 credit unions reporting a net loss for 2002, four less than third quarter 2002, but 12 more than the prior year-end. Another 20 credit unions report very weak Return on Average Assets (ROA) ratios of 0.20% or less. The aggregate ROA at December 2002 is 0.80%, down one basis point from the September 30, 2002 annualized ratio and down eight basis points from the prior year-end.

Net Worth Erosion

The aggregate net worth ratio of Michigan state-chartered credit unions remained stable at 11.05% during the fourth quarter, but declined 44 basis points since year-end 2001. Twenty-six credit unions report net worth ratios below 8%, one more than last quarter and two more than last year-end. Seven credit unions had their net worth ratios decline by more than 20% over the last twelve months, four more than last year-end.

Delinquency and Net Charge Offs

The aggregate Delinquent Loans to Total Loans ratio for Michigan state-chartered credit unions increased to 0.94% at December 31, 2002, six basis points more than last quarter and two basis points more than last year-end. The number of credit unions with delinquent loan ratios greater than 3% was 37 at year-end 2002, five more than last quarter and three more than last year-end. The number of credit unions with a Net Charge Off to Average Loans ratio greater than 1.5% was 25, one more than last quarter and 15 more than last year-end. The number of credit unions that had a Net Charge Off ratio increase of more than 100 basis points was 19, eight more than last year-end.

Conclusion

The weakened asset growth during the fourth quarter may indicate that economic volatility is slowing down. However, Boards of Directors and Management should continue to manage risk prudently to limit non-operating losses and preserve credit union net worth. Numerous institutions (both public and private) have been adversely affected by investment losses. Prudent investment strategies and investment analysis should be a constant objective for Boards of Directors and Management no matter what economic conditions are present.

Very truly yours,

Ronald C. Jones, Jr.
Acting Commissioner